

# Exhibit D

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## GM'S HARD LESSONS

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In 1984, a group of hand-picked **GM managers** came to the NUMMI plant in Fremont to learn the secrets of Japanese auto manufacturing.

For three years, they worked with Toyota managers in charge of production at the GM-Toyota joint venture, only to return to Detroit daunted by the task ahead.

"It was frightening realizing how tough the competition was and how tough it would be to beat that challenge," said Steve Coletta, now a **manager** at a **GM** plant in Ypsilanti, Mich.

But when the GM scouts returned to their own camp -- flush with the enthusiasm of the newly converted -- they found that Detroit executives weren't prepared for their message.

While New United Motor Manufacturing Inc. has influenced individual GM plants, halfway through this 12-year experiment, GM shows few signs of broadly putting into practice the knowledge it sought from the venture.

Top **GM executives** expected to learn about quick high-technology solutions, not subtle lessons about interrelations on the plant floor that took time -- not money. Adopting those lessons would require profound cultural changes that top GM leadership has been unwilling or unable to make.

Steven Bera, one of the first **GM managers** at NUMMI, remembers the intense interest **GM Chairman** Roger Smith and former **GM President** Jim McDonald showed for the plant.

But, he said, "I think they were very shallow in their insights as to what was actually happening there. You could take them through the plants, and they could see the cosmetics. What they couldn't sense was the feelings and the relationship in the air. Because there isn't a great deal of sentiment in GM."

Quality and production problems have cropped up recently at NUMMI, but many managers and workers say that's because the plant strayed from the basics. Those lessons are simple:

Teach workers and managers to take the initiative, treat hourly workers with respect and show them that their efforts are crucial to the venture's success. Add strict standards to ensure quality, good design and good parts, and the recipe works.

"The secret wasn't really a secret," said George Nano, chairman of the NUMMI local of the United Auto Workers. "I think it was just common sense, allowing workers to think, encouraging them to give their ideas."

Dee Allen, a **GM spokesman** in Detroit, said **GM** may have gone into NUMMI looking for some "magic answers," but that notion was quickly dispelled. Then the company went on to the real work of learning from the venture.

A complacent General Motors was shocked into internal reform in the early 1980s as Japanese competitors began to steadily gain U.S. market share at its expense. The 12-year NUMMI venture, which now employs 2,800, provided a way for GM to learn -- and adopt -- some of the successful management and manufacturing methods of the competition.

#### Obstacles to change

But GM's plight in the car market and its own internal problems made that task difficult.

(check) In Fremont, Toyota management had the luxury of starting anew. **GM** doesn't, and obstacles came up when **managers** tried to graft pieces of the NUMMI philosophy onto an existing GM culture in other plants.

GM officials now say they don't want to copy the NUMMI model so much as to use it to inspire home-grown solutions.

"NUMMI works because it is a system of many interrelated facets," said Marty Laurent, who **heads** up a special office designed to teach **GM** insiders about the plant. "If I went to NUMMI like it was a grocery store and tried to pick one item (for) my plant, it wouldn't work in the same way."

(check) NUMMI gets results partly because workers build cars that are well-designed to begin with. GM must master basic lessons about design before its plants can catch up with more productive competitors, analysts say. Until GM engineering gets up to par, even the most dedicated workforce can't make a car successful. That NUMMI can outstrip the performance of most GM plants has to do with more than what happens inside its doors, said **GM spokesman** Allen. "It goes deeper into the organization than that. . . . The vehicles **NUMMI** (is) assembling were designed for (ease of) assembly."

(check) **NUMMI** kept its promise not to lay off workers during a two-year slump that began in 1986. GM lacks the same commitment. With a constant threat of layoffs, GM will never get workers fully behind improvement efforts, said **NUMMI President** Kan Higashi. But with **GM's** plummeting market share, analysts question whether the carmaker can afford to make and keep job security promises.

#### Hopes for **NUMMI** venture

The two automakers went into the joint **venture** with different agendas, but analysts and insiders generally credit Toyota with taking better **advantage** of the experiment.

At **NUMMI**, Toyota set out to prove that it could match its hometown success on American soil with American workers. Its experience gave it the confidence to open plants in Georgetown, Ky., and Cambridge, Ontario.

But Toyota executives were by no means certain at first that they could succeed in Fremont.

Mike Furuhashi, one of the first Toyota labor relations **managers** to come to **NUMMI**, worried about the old **GM** plant's reputation.

"We were told . . . that's the worst plant in the world: high absenteeism, drug abuse, alcoholism. And the UAW Local 1364, the terrible, the worst, most militant UAW in the United States."

But from the beginning, Toyota made it clear that it planned to treat workers with respect and earned their trust in a way GM had failed to do after decades running the old operation.

That NUMMI won over these workers serves as a stark commentary on the problems plaguing American industry,

analysts said.

"There is nothing wrong with American labor, but there is something seriously wrong with American management," said Sheridan M. Tatsuno, president of Neoconcepts Inc. of Fremont and the author of a recent book on Japanese corporate strategy. "We should seriously consider the way we run our plants and manage people."

#### Broader success eludes GM

GM went into the venture to get a small car with the kind of quality design lacking in its own models. And after humbling market losses, it wanted to learn about Toyota management practices.

GM got its car, a restyled Toyota Corolla it sells as the Geo Prizm, without shelling out the usual \$500 million it costs to develop a new vehicle. But the Prizm has yet to become a hot seller, despite favorable reviews, because of poor marketing by Chevrolet, analysts say.

Broader success in the marketplace has also eluded GM, despite internal reform and efforts to adopt some Japanese manufacturing methods. The company's share of the U.S. car market plunged from 46 percent in 1979 to 35 percent a decade later. It remains to be seen whether GM will succeed with its own model for quality car manufacturing, the Saturn plant slated to begin production in June in Spring Hill, Tenn. .

At NUMMI, GM set up a program under which groups of a dozen or so managers would spend a few years at NUMMI and then return to the fold to share their knowledge. But many of the managers were dispersed throughout the organization in advisory jobs without the clout to make changes.

GM also tries to convey the NUMMI message by shuffling hundreds of its **managers** and workers through the plant. In response to critics, **GM** has lengthened the amount of time visitors can spend there, but for many, a trip to NUMMI is little more than a cursory look.

American **managers** coming to NUMMI from **GM** faced the most difficult challenge. They had to learn to lead workers rather than control them. "It is something that happened to them, that changed them," said Maryann Keller, an analyst at Furman, Selz and author of a recent book on GM.

John Arle, the top GM official at NUMMI, finds the joint venture's methods for solving problems the most refreshing.

"To have no problems is a problem. Ferret out everything. . . . Traditional American manufacturing people think twice about identifying shortcomings."

Bera, the former **GM manager** at NUMMI, gained insights into the autocratic style at **GM** after a Toyota **manager** chided him for "talking tough" in meetings instead of trying to reach consensus.

Trying to convey such experiences to skeptical GM officials was a frustrating task, especially for the first group of 16 **managers** scattered through the then-735,000-person **GM** organization.

"In some cases, it was almost like we were talking a different language," said Paul Thompson, a **manager** who has since left **GM**.

Some **GM managers** viewed NUMMI as the enemy -- an example waved about to reveal GM's failings, Thompson said. And the enthusiasm of the NUMMI converts only irritated them more.

GM officials said they have improved the way they bring back people from NUMMI, setting up support systems, training and placing them more carefully.

"Because the organization didn't know what to do with NUMMI to begin with, there wasn't a support system," said NUMMI spokeswoman Sharon Sarris. "As plants became more aware, it was easier to place people because the organization was hungrier. It could accept people back in rather than, in some cases, spitting them back out. "

And if NUMMI did nothing else, it made GM officials aware that they needed to think about certain issues more broadly, said Mark Hogan, a former NUMMI general manager who feels he's been able to put NUMMI ideas into practice in his current job.

"Toyota has shown us the capability of our workers has not been tapped," he said.

In the early and mid-1980s, GM was very committed to turning around the company using high-technology fixes, Hogan said. NUMMI taught GM not to look just at technology -- but at how it is integrated with people.

NUMMI also taught GM another lesson about people that will be far more difficult to adopt: a respect for the hourly worker's labor as more than just an expense on the balance sheet.

Unlike many American manufacturers, Toyota sees itself as having a social responsibility to its employees and their families. Even during hard times, the company rarely lays off workers.

NUMMI, helped by the deep pockets of GM and Toyota, carried through on that philosophy. It put people in a training program rather than laying them off during a two-year market slump. The cost: about \$5 million.

GM has taken the opposite approach. During its battering in the market in the last decade, its hourly workforce shrank from 468,400 to 300,000. As labor contract talks approach, analysts say GM can't afford to make the same costly job security promises.

But NUMMI President Higashi sees that money as a critical investment in the future. "Once you have people's confidence and trust, the next hard time, you will get much more power from the people."

#### Workforce

Since 1986, GM has closed 16 plants and idled three others.

Nine new plants have been opened, but thousands of jobs in the Rust Belt have been eliminated. Hourly workforce has gone from a peak of 468,000 in 1979 to 300,000 in 1989.

#### Efficiency

In the '80s, Ford improved overall manufacturing efficiency by 31 percent and Chrysler by 19 percent. GM improved its efficiency by only 5 percent during the same period despite having spend \$67 billion on new plants and products in the 1980s.

## Profitability

In 1988, GM's per unit profit was \$47 in North America.

Ford's profit was \$591 per unit and Chrysler was \$228.

Source: The Harbour Report.

Photos (2), charts (2)

PHOTO: Judy Griesedieck -- Mercury News

Gabriel Munoz works on the skeleton of the Geo Prizm before it has paint or wheels or other parts

PHOTO: Jose Luis Villegas -- Mercury News

Team leader Jeanette West writes up a defective car with a bad headlight. (color)

CHART: Ron Coddington - Mercury News

Source: Ward's Automotive Reports, Detroit

Shares of U.S. car market. (bar chart)

CHART: Ron Coddington - Mercury News

Source: Detroit Free Press

GM at-a-glance

General Motors, the biggest automaker in the world, has been hardest hit by the rise of the Japanese car manufacturers.

With headquarters in Detroit, GM employs 765,700 workers and has total annual sales of \$123.6 billion.

## Cover Story

Breaking the Mold

Sunday: Halfway through its life cycle, NUMMI struggles to fulfill its promises

Tuesday: From the United Auto Workers, NUMMI's a model some hate, others love

Additional information attached to the end of this article

## --- INDEX REFERENCES ---

COMPANY: UNITED AUTO GROUP INC; GENERAL MOTORS CORP; TOYOTA MOTOR CORP; DAIMLERCHRYSLER AG

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